

This work is licensed under a  
Creative Commons Attribution-NonCommercial-  
NoDerivs 3.0 Licence.

To view a copy of the licence please see:  
<http://creativecommons.org/licenses/by-nc-nd/3.0/>

(832)

IDS LIBRARY  
RESERVE COLLECTION

UNIVERSITY COLLEGE, NAIROBI  
INSTITUTE FOR DEVELOPMENT STUDIES  
Social Science Division

Discussion Paper No. 82

THE VALUE OF TOURISM IN EAST AFRICA

by

Frank Mitchell

July, 1969

Any views expressed in this paper are those of the author.  
They should not be interpreted as reflecting the views of  
the Institute for Development Studies or of the University  
College, Nairobi.

## THE VALUE OF TOURISM IN EAST AFRICA \*

Tourism is the fastest growing and potentially the largest single East African foreign exchange earner. It is also one of the oldest, if the 19th century visits of Livingstone, Speke, Baker, Stanley and their successors are counted. While classified as an 'invisible' for balance of payments accounting purposes, it is one of the most 'visible' East African industries, if 'visibility' is measured by column inches of newspaper and Hansard space devoted to discussion of its impact and problems. In spite of its long history, and the large amount of interest in it, there is a widespread lack of clarity about just what benefits tourism confers on whom, and about how they can be increased. The purposes of this paper are to provide a measure of the present (or rather, 1967) value of tourism, to describe a few of the implications of tourist expansion and to discuss policy in two areas - pricing of tourist activities and East African Co-operation - in which decisions can have an important impact on the future value of the industry to East Africa.

### THE CONCEPT OF VALUE

If we assume a social welfare function in which individuals' utilities are arguments, it is necessary

to ask "Whose utilities are included in the welfare function?" before attempting any measure of value.

It is assumed in this paper that the utilities of non-residents of East Africa do not enter any of the relevant social welfare functions (which variously include the utilities of residents of East Africa, citizens of East Africa and residents or citizens of individual East African countries). This has the extremely important implication that consumers surpluses accruing from non-residents' consumptions of tourist services should not be counted in any measures of the value of tourism.

Valuation of an activity requires that the consequences of that activity be discovered and those consequences be valued in terms of the relevant social welfare function. The consequences of any activity can be divided into non-pecuniary and pecuniary. We discuss these in turn.

#### The Non-Pecuniary Consequences of Tourism:

One of the main features which distinguishes tourism from other export industries is the greater importance of its non-pecuniary consequences relative to its pecuniary ones. These consequences consist mainly of the external effects of tourists' physical presences in the country on



the welfare of local people. The facts that tourists dress and behave in 'peculiar' ways, that they use their own languages in public places, that they establish personal contacts with local people while they are here, all have some impact on the utilities of residents and citizens. In addition, tourists' tastes may be offensive to some people. Thus, 'tourist art' is sometimes bemoaned by those who enjoy 'good art'. This paper does not attempt an assessment of the impact of these aspects of tourism. Indeed, it is not clear whether some of these consequences add to or subtract from social welfare. Even in cases where it is possible to state the sign of their potential impact, it is impossible to arrive at estimates of the trade-offs between them and the pecuniary consequences.<sup>2</sup> In spite of this, one hypothesis can be proposed about the non-pecuniary externalities of tourism. To the extent that East Africa's tourist attractions (and hence tourists) are located away from the main population centres, the non-pecuniary/externalities of foreign tourists in East Africa will be less important relative to the pecuniary consequences than in tourist regions (such as Europe) where the attractions are located in the midst of the resident populations. Pecuniary external effects (tourist demands driving up the prices of facilities used by locals, tourist demands permitting the provision of facilities which would not otherwise be available to residents) are dealt with below.

The Pecuniary Consequences of Tourism:

The most important of the pecuniary consequences of tourism is its impact on GNP.<sup>3</sup> Tourists, for the moment defined as non-resident visitors to the region being considered,<sup>4</sup> purchase goods and services in connection with their visits. Insofar as those purchases are from East African residents, the payments for them are recorded as foreign exchange receipts in the balance of payments.

The amount of GNP (or gross value-added) generated by tourist expenditures consists of these receipts, less the foreign exchange cost of the goods and services purchased by tourists. This measure, GNP generated or net foreign exchange earnings of tourism, does not measure the net impact of tourism on GNP however.<sup>5</sup> Supplying tourist goods and services also requires the use of domestic resources. These resources - labour, capital, skills, land - could produce other things of value if they were not used in tourism. The value of these alternative outputs must be deducted from tourism's net foreign exchange earnings (or gross value-added) in order to arrive at a measure of the net tourism impact on (or marginal contribution to) GNP.

In addition, insofar as it is impossible to set different prices for tourists and domestic residents for the same services, maximizing the gains from tourism will require

that the difference between marginal cost and price of those services charged to residents be larger than in a situation in which there were no tourists. The cost of this inefficiency should be deducted from the above measure of gain to arrive at the true impact on GNP.<sup>6</sup>

Another consequence of an activity which is at least potentially susceptible to measurement in pecuniary terms is its impact on the distribution of income. Typically, an activity will affect the distribution of (real) incomes in two ways. First, it will result in some changes in the relative prices of goods consumed by residents and these changes may benefit (or harm) some classes of persons more than others.<sup>7</sup> Second, it will affect the distribution of income through the mix of inputs it uses and hence the pattern of incomes paid to owners of factors of production. This paper contains no overall estimates of the impact of tourism on the distribution of incomes between owners of different factors of production (labour, skills, capital, land), between different income classes or between persons living in different parts of the region. However, partial evidence (mostly in footnotes) is presented on some aspects of the question.

# A MEASURE OF THE VALUE OF TOURISM

Measuring the GNP impact of tourism is more complicated than measuring the GNP impact of many other activities. Tourists purchase a wide variety of goods and services from an enormous number of public and private firms, and no two tourists purchase exactly the same bundle of items. There are two basic ways in which these bundles can be estimated: first, through questionnaire surveys administered to departing tourists on the amount and pattern of their expenditures; second, through surveys of firms which are known to deal with tourists. The estimates for Kenya which are given below were drawn from both types of sources so far as transport and food and accommodation are concerned. Even in these cases, however, the figures should be taken as stating orders of magnitude rather than as being exact. In the case of other expenditure items, it was impossible to secure information from industry sources which could be used to check the estimates from the tourist expenditure survey.

Once the pattern of tourist expenditures has been estimated, it is necessary to estimate the costs of the items on which those expenditures were made. This requires surveys of the cost structures of the different types of firms engaged in selling to tourists. Since these firms in turn make substantial purchases from other firms (hotels from

wholesalers, and wholesalers from farmers, for example) it is also necessary to secure estimates of the costs of those firms, and so on down the line. Use was made of the Survey of Distribution, 1960 and the Kenya Census of Industrial Production, 1963 to estimate 'indirect' employment, costs and Government revenues arising from tourist purchases.<sup>8</sup>

In the case of each cost item, it is necessary to judge whether private costs diverge from opportunity costs. We deal with this question in relation to the particular estimate made below.

Finally, some allocation of non-separable costs of infrastructural activities which provide services jointly to tourists and others must be carried out. It is impossible to perform this allocation in a theoretically valid way. However, some allocations of this kind had to be made when it came to costing the government services (airports, roads, game parks, etc) used by tourists, since it is clear that government would have spent something less on several of these items were it not for tourism.<sup>9</sup>

Another point about the estimates given here should be mentioned. It would in general be more useful to discuss the benefits of expanding tourism and to discover the differences in impact from different types of tourist expansion. While this paper discusses some of these,

issues, a major object of the study on which it is based<sup>10</sup> was to see whether present tourism is worthwhile. While the worth of tourism might appear self-evident to those in the trade and to conservationists around the world (who see tourism as a major factor which will lead these countries to preserve a particularly rich ecological heritage), it was by no means self-evident to policy-makers in Kenya, or to the author when the study was begun.

The Value of Tourism by Non-Residents of East Africa:

In 1967, between £16 and £24 millions were spent in East Africa by persons living outside the region. The wide disparity in the estimates reflects the inadequacies of the statistics.<sup>11</sup> Of this, approximately £1.4 millions were spent by passengers and crews of ships passing through East African ports and the remainder by persons documented as visitors by the Immigration Departments of the three East African countries. These tourist receipts were distributed among the three countries approximately 64-59% Kenya; 23-22% to Tanzania and 13-19% to Uganda on the low and high estimates respectively.

Table I provides an estimated breakdown of 1966/67 tourist expenditures in Kenya among different activities and for each activity, among major national accounting categories. If all resources are priced at their

opportunity cost, the net value of tourism will consist of (1) indirect taxes paid on goods purchased by tourists,<sup>12</sup> plus (2) receipts to Government for services provided, less (3) the cost to Government of providing the services used by tourists and promoting tourism. Row 9 of Table I indicates that the value of tourism by non-East African residents to Kenya on this definition came to a little over 4% of their expenditures in 1966/67.

If the same calculation were done for 1967/68, the percentage would be higher due to higher customs and exercise duty rates in the 1967 Budget, as well as to increases in park entrance fees, lodge rentals and hunting licence fees. Analogous estimates are not available for Tanzania and Uganda. In view of the facts that a larger proportion of the inputs into tourism are imported in those two countries (and hence the indirect tax component of tourist expenditures was higher), and that during the time of the study there were higher taxes or fees charged for some tourist services (hunting licence fees, park entrance fees, hotel taxes) in those countries than in Kenya, it is possible that the above measure of value as a percentage of expenditures was somewhat higher for Tanzania and Uganda than for Kenya.<sup>13</sup>

It should be emphasized that the above measure is a minimum estimate of the GNP impact. First, it ignores intramarginal rents on factors employed in tourism. Second,

TABLE I

Estimated Contribution to Various National Accounts Categories of Kenya Tourist Receipts from Non-Residents of East Africa, 1966/67 (£'000)

A C C O U N T I N G I T E M:	Private Sector Activities						Government: Parks, Airports etc./b/	GRAND TOTAL	Percent of Receipts <sup>a/</sup>	Percent of G.D.P. <sup>a/</sup>
	Food, Drink, Room:	Tour Operators & Car Hire:	Safari Out-Fitters:	Air Charter:	Curlios & Misc. Others:	Total Private Sector:				
1. Receipts (less intra-tourism payments)	4,370	1,000	580	200	3,500	9,650	3,205	9,970	100.0	-
2. Import Content of Receipts <sup>a/</sup>	664	114	76	30	805	1,689	122	1,811	18.2	-
3. Gross Domestic Product (1. - 2.)	3,706	886	504	170	2,695	7,961	-	8,159	81.8	100.0
4. Payments to Non-Resident Factor Owners <sup>c/</sup>	110	68	19	8	140	345	-	345	3.5	4.2
5. Gross National Product (3. - 4.)	3,596	818	485	162	2,555	7,616	-	7,814	78.4	95.3
6. Depreciation	268	153	42	20	175 <sup>d/</sup>	558	120	778	7.8	9.5
7. Net Domestic Product (3. - 6.)	3,438	733	462	150	2,520	7,303	-	7,381	74.7	50.5
8. Net National Product (5. - 6.)	3,328	665	443	142	2,380	6,958	-	7,036	70.6	86.2
9. Indirect Taxes less Subsidies	414	95	48	2	245	804	376	428	4.3	5.2
10. National Income (8. - 9.)	2,914	570	395	140	2,135	6,154	454	6,608	66.3	81.0
11. Cash Labour Remuneration <sup>e/</sup>	1,211	323	227	78	233	2,172	213	2,385	23.9	29.2
12. Other Domestic Factor Payments <sup>e/</sup>	1,603	247	168	62	1,902	3,982	241	4,223	42.3	51.7

<sup>a/</sup> Payments by tour operators to hotels, national parks, and air charter firms have been deducted from tour operators' receipts and added to receipts of those activities. Also, rents paid by lodges to the Kenya National Parks and county councils estimated at £30,000 have been deducted from hotel receipts and included as Government receipts, on grounds that these are a payment for a specific service (the use of the land) and not indirect taxes.

<sup>b/</sup> The estimate of government receipts excludes an estimate of Kenya's share of E.A.A. receipts attributable to tourists. The rows for GDP, NDP, and NNP have not been filled in for the Government sector. To fill these rows in, and avoid double-counting, would require all calculations



to be made at factor cost. The subsidy to cover costs of government services used by tourists could then be included with direct payments in row 1, as if it were a payment for services rendered to the different tourist activities. The problem with this procedure would be that there is no rational way in which the subsidy could be allocated among the different private sector activities. It should be emphasized that the costs of government include imputed estimates of depreciation and interest cost on government capital providing services to tourists, and that neither of these items is included in the government accounts.

c/ Some percentages do not add up due to rounding. d/ Does not include import content or depreciation.

e/ This is an estimate of the outflow of profits and debt service. It does not include retained earnings or depreciation accruing to non-residents, labour earnings of expatriates working in Kenya are included in Row 11.

f/ Assumed 5% of receipts.

g/ Since it was impossible to obtain costs breakdowns for all activities supplying tourists directly or indirectly, some cash labour remuneration is included in Row 12. The amounts are likely to be particularly large in the case of Government, and of Curios and Other. In the latter case the figure in Row 11 is for Cash Labour Remuneration at the Retail level only.

Source: Mitchell, op. cit., p. 10.

it ignores the pure profits earned in tourist enterprises and remaining in the hands of residents, which might come to as much as 1% of tourist receipts.<sup>14</sup> Third, it assumes that the official foreign exchange rate reflects the opportunity cost of foreign exchange.

Given the recent increases in East African foreign exchange reserves, this may be a sound assumption. However, the existence of foreign exchange controls may conceal an overvaluation of domestic currencies. Table I indicates that approximately 78% of tourist receipts represents net foreign exchange earnings on current account. If foreign exchange is undervalued, (local currency overvalued in terms of foreign currency), this percentage should be multiplied by the proportional degree of undervaluation, and the product included as gain.<sup>15</sup> Fourth, the measure does not include any allowance for the fact that labour employed in tourism (and other modern sector activities in the economy) is probably paid more than its alternative earning in the traditional sector. A low estimate of cash labour remuneration generated by tourism in 1966/67 in Kenya came to 24% of tourist expenditures. (Table I, row 11). If, for example, 10% of labour remuneration represents a gain from modern sector employment, the value of tourism as a percentage of tourist expenditures will be raised by 2.4%.<sup>16</sup>

The measure of gain made above is also conservative because it excludes some pecuniary consequences of tourism. In particular, visitors who come here for recreation may develop an interest in East Africa which is later registered in more foreign investment, more East African exports of goods to which they were exposed while here and in more tourists coming due to favourable publicity from friends who have been. As well, some services which it is profitable to provide solely to serve tourist demands may, due to indivisibilities or to public good characteristics, yield benefits to residents as well. Examples include benefits derived by farmers from the construction of tourist roads and by residents of very remote areas from tourist airstrips. Tourist demands also make preservation of natural attractions and historical sites profitable. To the extent that preservation is also valued by residents, the true value of tourism will be higher than the estimate.

On the other hand, to the extent that tourist demands have resulted in higher prices of goods also consumed by residents - hotel tariffs at the Coast and in the wildlife areas being the main examples - our measure above will not include all relevant costs of tourism. However, if it is remembered that local demanders of such facilities tend in the main to be rich and expatriate, the adjustments which should be made on this account are minor.

To summarize: the value to East Africa of non-resident tourism in 1967 probably amounted to between 5 and 10% of tourist receipts or to between £0.8 and £2.1 millions.

Value of Tourism by Residents of East Africa:

The above estimates take no account of travel expenditures by residents of East Africa within the region. In evaluating the gains from these expenditures, it is important that we define carefully whose welfare is being maximised. Insofar as we are concerned with the welfare of all residents of East Africa, the net gain from resident travel in the region will consist of the extra satisfaction afforded residents from their local travel over its best alternative. If our focus is still East Africa, but we are concerned to maximize the welfare of East African citizens, the gains from travel-recreation opportunities in East Africa will consist of the surplus of satisfaction accruing to citizens from travel over its best alternatives, plus the gains from resident non-citizen travel calculated in exactly the same fashion as for non-residents, less the gains which would have accrued from the alternative pattern of expenditures by resident non-citizens in the absence of local travel opportunities. It is likely that the latter difference is positive. While some alternatives involve local expenditures, the major alternatives to local travel

for many expatriates are to save more money to take with them when they finally depart the region or to take more leaves abroad. . It is also likely that the magnitude is significant, since a majority of expenditures on intra-East African travel by residents is probably by expatriates.<sup>17</sup>

If we are concerned with the welfare of persons resident in - or citizens of - a particular East African country, the above analysis will apply to expenditures on pleasure travel within the country by its own residents (or citizens) and expenditures by residents of neighbouring countries should be treated exactly like expenditures by non-residents of East Africa. Residents of Tanzania and Uganda probably spent £2¼ millions in Kenya in 1967. There are no statistics on the commodity composition of their expenditures, but there is no reason to believe that the percentage of their expenditures comprising a gain to Kenya is any less than the percentage for other visitors.<sup>18</sup> If we assume that the receipts of the other two countries from travel by residents of their neighbours together equal Kenya's receipts, the estimate of total tourist receipts to the East African countries will be raised by £4½ millions and the total of their gains by £¼ - ½ million to £1.0 - 2.6 millions.<sup>19</sup> It is also of some interest that spending on pleasure travel by residents of Kenya in 1967 may have amounted to £2½ millions.<sup>20</sup>

The measure of value given here may appear small. That is, we might expect that the East African G.N.P. would fall by more than £2 millions were visitors to cease coming. This would be so, in the short run. Certainly, the "disappearance" of tourism would lead to a temporary depression in the prices of second hand vehicles and in the sales of new vehicles. It would result in the immediate unemployment of persons with tourist-specific skills such as waiters, cooks, and safari guides, and many of these people, when they eventually found alternative employment in either the modern or traditional sectors, would find that they were earning less than they did in tourism. Hoteliers would take substantial losses, although present rents on city office space and middle income accommodation are high enough that conversion of many city hotels to these purposes would undoubtedly be economic. As well, it is unlikely that the resources freed from tourism, were it to disappear, would find employment in alternative activities which could bear a net export (or import substitute) tax of the level borne by tourism. Nevertheless, if the economy has a modicum of alternative demands for its resources, and a reasonable degree of flexibility to take advantage of them, it will be possible to adjust to substantial changes in the demand for a single activity, such as tourism, without too serious dislocation. <sup>21</sup>

Another way of putting this argument, albeit somewhat crudely, would be to state that the factors holding up development tend to lie on the side of supply - resource availabilities, entrepreneurial skills to combine them, and administrative structures which facilitate rather than obstruct their combination and recombination - instead of demand.<sup>22</sup>

#### A GLIMPSE AT THE NEAR FUTURE

It is likely that the value of tourism, as a percentage of tourist expenditures, will rise in future, even without any policy changes. Ironically, this will occur in the face of a probable fall in tourist-generated Gross National Product as a percentage of tourist expenditures. The gains are likely to rise due to rising rates of indirect taxation<sup>23</sup> an increasing share of tourist plant being owned - or financed - by foreign investors who would not have invested in other East African industries,<sup>24</sup> and more intensive use of indivisible tourist facilities such as National Parks, airports and tourist roads. As well, if the shadow rate of foreign exchange rises and if the modern sector does not expand rapidly enough to reduce the number of people who are unemployed or employed in the traditional sector, we can expect the gains from tourism on account of its foreign exchange earning power and employment generating effects to increase.<sup>25</sup> The expectation that tourist-generated G.N.P. as a percentage of expenditures will fall, at

least for the next few years, is based upon the assumption that a rather larger proportion of future than of past tourist investment will come from foreign sources.<sup>26</sup> Servicing this investment - and paying the management fees frequently associated with it - will involve a relatively larger outflow of foreign exchange and, hence, a larger relative difference between tourist receipts and tourist generated G.N.P. than has been the case in the past.

Of greater importance than changes in the gains from tourism as a percentage of tourist expenditures is the absolute increase in gains to be expected. Worldwide, international tourist movements and expenditures have recently increased at an average annual rate of almost twice that for commodity trade.<sup>27</sup> This is explained by rising income, in the rich countries, high income elasticities of demand for foreign travel, and reductions in the price of air travel. The latter are due to lower cost equipment and to the proliferation of air charters charging prices below the fares on scheduled flights. The same factors, in part, underlie the spectacular growth in visitors to East Africa since 1961-2. Between 1950 and 1961 total visitor arrivals in East Africa rose at a rate of just under 5% per year, while from 1961 to 1967, they rose at a rate of just under 18% (to a total of almost 152,000). Holiday



visitors increased around 5% faster.<sup>28</sup> Also operating in the East African case is an explosion of interest in the wonders of nature among residents of rich countries where those wonders have been eliminated or relegated to a few inaccessible enclaves.

There is no reason on the demand side why these recent rates of growth should not continue. Certainly, they are not without precedent elsewhere.<sup>29</sup> If a 20% growth rate is maintained, tourist expenditures will grow two and one half times every five years. Even on optimistic assumptions about the growth of other sectors of the East African economies, this means that tourist receipts can grow at three times the rate of growth of East African G.D.P., and the value of tourism yet faster.<sup>30</sup>

#### SOME IMPLICATIONS OF TOURIST EXPANSION

That we can expect the net gains to increase at least in proportion with tourist expenditures indicates that this industry is well worth expanding. Realising this increase will require substantial resources to be devoted to tourism. A high estimate of the incremental capital/output ratio for Kenya tourism lies in the region of 2.5 to 3.0.<sup>31</sup> Of this, one third consists of infrastructural investment: roads, airports, public utilities and game reserve development;

half consists of investment in hotels, tour operations, local air charter firms and other direct tourist activities; and the remainder of investment in training for tourist activities and in industries supplying tourist activities (excluding construction). This ratio compares favourably with those for the monetary/economy as a whole (3.0), for agriculture (2.7) and for manufacturing (4.4). If similar ratios apply in the other two East African countries, the tourist demand projections imply an East African tourist investment effort over the next five years of upwards of £60 millions.

Where will the money come from? There is little doubt about the availability of private capital (local and foreign) to finance direct tourist activities - hotels, tour operating, curio production - in Kenya and perhaps in the other two countries as well. In addition, the World Bank (and its subsidiaries) and foreign governments have shown a willingness to invest in East African tourism, in both direct tourist activities and in tourist infrastructure.<sup>32</sup>

A much more serious constraint on recent expansion has been sluggishness on the part of Governments in facilitating the construction of facilities which were generally agreed to be desirable and for which finance was available.<sup>33</sup> This is a recent phenomenon. The explosion in overseas visitor numbers began just after Independence, simultaneously

with the decline of holiday travel by European colonials resident in East Africa, the Congo and Southern Africa. This decline freed hotel beds to accommodate substantial numbers of overseas visitors and it was only in 1965/66 that bed shortages became widespread and acute. Nor is the sluggishness surprising. Accommodating overseas tourists requires many more specifically "tourist" infrastructural investments (in airports, roads, city hotels, game areas) than did colonial tourism which in the main used infrastructure put in place for other than tourist reasons. In direct tourist activities as well - car hire, tour operating, hotels, air charter firms - the demands of and the problems encountered in dealing with, the new type of visitors are different than the old. The colonial regimes did not leave behind them well-articulated ministries with a cadre of people possessing expertise in the problems of tourism as they did in the cases of commerce, industry, agriculture and education. Thus, the newly independent governments, with many other problems on their hands, faced and essentially new phenomenon in tourism. Their response to it has been to create a series of bodies concerned with tourist development and to redefine the powers of those bodies when they have not accomplished the results expected of them. Such administrative experimentation can be expected to continue.

Another constraint on expansion, which is not unrelated to the last - mentioned, is the scarcity of skilled and experienced manpower in the tourist field. Direct tourist activities - whether privately or publicly owned - are mostly undertaken by expatriates, for the same basic reasons that many other activities are financed by foreign capital and managed by foreign experts: lack of capital in the hands of citizens and lack, as yet, of enough local citizens with the requisite skills to run all enterprises in these economies.

A 20% per annum expansion in tourism implies, over the next five years, that an additional 12,000 employees will be required in activities directly serving non-resident tourists and an additional 9,000 in activities supplying the tourist industry (excluding construction).<sup>35</sup> If standards of service are to be maintained, and preferably improved, and if the governments' aims of Africanizing the tourist industry are to be met, expansion on this scale will require substantial training programmes. It is particularly important, if the industry's growth is not soon to be stunted by shortages of trained labour, that training be expanded immediately for 'low level' employees - cooks, waiters, safari guides, etc. Management requirements can be met by importation of expatriates in the short run, although training of local managers must also have high priority for the long run viability of tourism.<sup>36</sup>

The supply of basic tourist attractions - wildlife, 'unspoilt' natural scenery, beaches - has not limited East African tourism in the past. Nor can it be expected to do so in the near future, say the next 5 or 10 years. Nevertheless, long-run forecasts indicate that these resources are not inexhaustible and this has implications for present policy.

By way of illustration, if we forecast visits to game parks to grow at 15% per year to the end of the century the parks will have to accommodate 181,00 visitors on peak days in the year 1999/2000 or more than one person per square mile of present nature reserves.<sup>37</sup> As a percentage of the area of East Africa, the area now in nature reserves is impressive by international standards.<sup>38</sup> However, large parts of this area (such as most of Tsavo East, the Southern Tanzania Game Reserves and Ruaha National Park) have an extremely limited potential for intensive wildlife viewing. The visitor forecast implies that many existing areas will have to be much more intensively developed. Insofar as the location (and permanence) of lodges, roads and water holes in the wildlife areas and of hotels and supporting infrastructure at the Coast can significantly affect the future cost of intensification of use of these attractions, long run forecasts assume some importance for present decisions. The forecasts also suggest that the

numbers of attractions will have to be increased. In the case of wildlife attractions, the extremely high costs in future of reversing present decisions to develop 'unused' wildlife areas for agriculture make such decisions essentially irreversible.<sup>39</sup> These two factors then, the increasing scarcity of natural attractions indicated by reasonable visitor projections and the essential irreversibility of decisions to turn potential tourist attractions to other uses, make perspective planning in tourism more important than in most other activities.

#### P R I C I N G   P O L I C Y

The main problem facing Kenya and Tanzania tourism at the moment is a shortage of beds to accommodate all of the tourists who wish to come in peak seasons. The shortages have spread over an increasing proportion of the year, probably through some combination of overall rises in demand (so that previous low-season demands are sufficient to utilize existing capacity in some classes of facilities) and of a decline in the seasonality of demand (partly induced by the sale of regular scheduled tours by overseas operators and partly induced by a rescheduling of individual vacations to fit in with availability of bookings). The shortages imply that the G.N.P. - impact of tourism is less than it could be, either because there are not enough beds in place,

or because prices are too low during peak seasons.

With present seasonal patterns of demand, the return on investment in Game Lodges - the type of facility causing most of the problems.<sup>40</sup> - is attractive. In Kenya and Tanzania the basic reasons for the bottleneck in lodge construction lie elsewhere than in non-profitability: namely in the administrative sluggishness referred to earlier.

Even were it not profitable to build more facilities - which it is - predictable peak - season shortages are evidence that insufficient gains are being reaped from tourism because peak season prices are too low. While it can reasonably be argued that demand for hotel beds is insufficiently elastic to make reductions in off-season hotel tariffs alone profitable, the same reasoning implies that the peak season tariffs should be even higher.<sup>41</sup> That peak season prices are not set higher is due to a combination of factors: control of lodge prices by the authorities owning the land,<sup>42</sup> the fact that some Game Lodges are managed by firms associated with tour operators,<sup>43</sup> and, perhaps more important, managerial sluggishness.<sup>44</sup> In addition, "high" and "unstable" prices have been subjects of critical statements by governments and these statements may have reduced the willingness of operators to experiment with prices.<sup>45</sup> The inability - or unwillingness - of

hoteliers to charge tariffs high enough to ration peak season shortages provides an excellent opportunity for governments to raise revenues (and hence the value of tourism) by imposing higher taxes on hotel beds occupied in peak than in other months.<sup>46</sup>

Another commodity in shortage is hunting blocks in Kenya, and, to a much lesser extent, in some of the more desirable hunting areas of Tanzania and Uganda.

While hotel and hunting safari prices are too low to ration peak shortages, they have risen rapidly in recent years. It is to be hoped that the governments' responses to these rises will be to redouble their efforts to increase the stock of hotel beds and to increase the intensity of hunting, rather than to hold prices down via administrative controls. Price controls, if they result in prices even further below the market clearing level than is the case at present, will be triply costly: first, their administration will divert extremely scarce high level manpower from more productive activities; second, they will reduce the incentives on the private sector to build more tourist facilities; and third, and most important in the short run, they will reduce the receipts and the gains to East Africa from the limited number of tourists which can be accommodated. East Africa's reputation in the



tourist world will be no worse if it is known as a "high cost" area than if it is known as an area where it is "impossible to secure bookings". However, the first is more profitable (to East Africa) than the second. The solution to both complaints is the same: build more capacity.

#### THE ROLE OF EAST AFRICAN CO-OPERATION

##### The Gains from Co-operation:

There are several sources of potential gain from co-ordination of tourist development on an East African basis. First, many activities such as tourist research and planning, promotion, university hotel management training and infrastructural activities such as airports, roads and game parks enjoy substantial economies of scale. Planning for them on an East African basis can be expected to result in larger gains to the region than could be secured if they were carried out on an individual country basis. Two examples will clarify this point. Tanzania is extremely concerned at the fact that the major point of tourist entry into East Africa is Nairobi. Partly in order to induce more tourists to enter Tanzania directly, it plans to build an international airport at Sanya Juu between Moshi and Arusha. While this investment could conceivably pay Tanzania, it is much less likely that it would be worthwhile from an

East African viewpoint, given the much cheaper expansion of capacity presently planned for Nairobi airport and the fact that a substantial proportion of the tourists arriving at Sanya Juu would in any event come to Nairobi at some time during their visits.<sup>47</sup> A related example is the choice which exists between developing new wildlife circuits in Southern Tanzania and Northern and Western Kenya versus intensifying the existing Southern Kenya - Northern Tanzania circuit. For some years to come, it will be cheaper to accommodate increases in tourist numbers on this 'international' circuit than to put in the new infrastructure necessary to develop its 'national' alternatives. Yet an inability of these two countries to co-operate could result in their adopting a high cost competitive policy.

Second, the closest competitors for tourist receipts to each of the East African countries are its East African neighbours. If Kenya, Tanzania and Uganda engage in outright competition with each other, there is a good chance that the gains from tourism to East Africa as a whole will be lower than if these countries did not compete. The policy area in which this competition may first become apparent is the granting of competitive tax concessions to foreign enterprises willing to establish in this country versus that. Since a large part of the gains from tourism are measured by tax receipts, such action would clearly

reduce those gains. A similar argument may apply to the terms on which the East African countries are able to secure the services of foreign management firms for their nationalised enterprises. The supplies of foreign capital and skills are presumably less elastic to East Africa as a whole than to any particular partner.

On the other hand, it has been argued privately by persons concerned with tourism that the inability of individual countries to increase facilities fast enough to keep up with tourist demands would be compounded if planning took place on an East African basis. In this view, intra - East African rivalry may provide a very necessary spur to performance, and gains on this account would more than outweigh any potential losses from non-cooperation.

Third, insofar as administrative obstacles make tourism more costly to tourists, their elimination can be expected to increase the tourist flow over what it otherwise would be. In particular, gains are to be reaped from reducing the difficulties tourists encounter in dealing with immigration formalities (time is money) by, for example, issuing one visa good for all three countries and in ensuring the smooth running of tours which cover more than one East African country.

Realising the Gains from Co-operation:

The above sources of gain are sufficiently obvious to need no labouring. Estimates of their size must await future research. What is not so obvious, however, is how the gains can be realised in practice.

Until recently, East Africa was one unit so far as tourism was concerned. Most tourists had (and have) no particular preference to see a Tanzanian elephant versus a Uganda one, or to lie on a Kenya beach rather than a Tanzania one. As well, tour operators based in any one of the countries could freely take clients to any of the other countries. Tourist statistics were compiled on an East African basis by the East African Statistical Department and by the East African Tourist Travel Association. The E.A.T.T.A. also handled all official publicity for the region. Trade Associations - the Hotelkeepers, Tour Operators, Travel Agents, Professional Hunters - also operated on an East African basis.

While this cooperation was undoubtedly efficient, it was felt by Tanzania and Uganda to benefit Kenya at their expense. Since Independence this feeling has led to a substantial reduction in the amount of cooperation. Uganda withdrew from the E.A.T.T.A. in 1963 on grounds that the ratio of the benefits it derived from membership relative

to its subscription was less than the same ratio for the other members. This led to the decrease of the organisation two years later.<sup>48</sup> National trade associations have been established in place of East African ones. From 1967, the East African countries ceased to keep comparable tourist statistics.<sup>49</sup> Immigration controls set up at intra-East African borders in 1966 and 1967 made tourist movements within East Africa more time-consuming and cumbersome than they had been. Requirements that vehicles be registered (and now pay sales tax) in Uganda if they visited that country more than once in any year placed another impediment on intra-East African travel. Expenses of tour operators were raised by the requirement that their tour vehicles be inspected in each country before being allowed to carry passengers in that country.

Even less attention is paid to comparative advantage in the supply of services than of goods. Tanzania in particular has been concerned about "imbalance in the exchange of services, in addition to exchange of goods" in East Africa and has warned that in future firms supplying services in Tanzania will have to establish themselves as "corporate persons inside Tanzania" if they are to operate there.<sup>50</sup> None of the countries presently excludes operators from its neighbours. However, all three now have tourist industry

licensing legislation which could be employed to this end, and if experience of work permit, import and business licensing legislation is any guide, there is usually a lag of one or two years between the enactment of such legislation and exploitation of its full potential. Already, the Tanzania Tourist License Fee for non-resident firms is twice that for residents (£200 per year versus £100). In the case of outfitted safaris, Kenya outfitters can operate in Tanzania only if they pay Tanzania Wildlife Safaris a royalty (equivalent to a tariff) of 10% of the price which would be charged by T.W.S. for the same safari.

The common feature of all of these measures is that they are unilateral. While they redistribute gains, they also reduce them on an East African basis. One major opportunity for formulating institutional means for tourist co-operation was lost when the Treaty for East African Cooperation was negotiated. The only mention of tourism in the Treaty was its specific exclusion from the purview of the East African Development Bank<sup>51</sup>. However, there is nothing to prevent the countries from including tourist development under those Treaty clauses which urge coordination of planning in general and in specific items such as surface transport.

East African tourist cooperation has not completely disappeared. In July, 1963, the Permanent Secretaries of

the Ministries concerned with tourism in each country met together in Nairobi for the first of a regular series of meetings.<sup>53</sup> The governments in November, 1968, reversed a decision to enforce Immigration regulations on intra-East African air travel which would have seriously reduced if not eliminated the economic viability of one-day air charter tours from Nairobi to the Tanzania Game Parks, to the detriment of both Kenya and Tanzania.<sup>54</sup> Representatives of the national road transport licensing authorities in the three countries are meeting under the aegis of the East African Community to discuss, among other things, ways of reducing the administrative uncertainties presently faced by firms supplying transport over intra-East African borders.<sup>55</sup> East African Airways promotes tours on an East African basis and also acts as a distributive mechanism for gains derived from Kenya tourism being allocated to its community partners. The requirement that foreign airlines obtaining landing rights in Nairobi serve Dar es Salaam and Entebbe as well has a substantial redistributive effect.<sup>56</sup> Nevertheless, the amount of cooperation is still probably far less than would be optimal from an East African point of view. Perhaps research design to discover the size of the potential gains from cooperation, to analyse the asymmetries in their distribution and to evaluate alternative means for redistributing them must precede any substantive government moves toward cooperation in the tourist field.<sup>57</sup>

## THE VALUE OF TOURISM IN EAST AFRICA\*

## F O O T N O T E S

+++++

\* This paper is a revised and shortened version of a Chapter on tourism in Industry and Labour in East Africa, Ed. by Graham Smith, East African Publishing House, Nairobi, 1969. Most of the data are drawn from Frank Mitchell, The Costs and Benefits of Tourism in Kenya, Report Prepared for the Kenya Tourist Development Corporation, Institute for Development Studies, University College, Nairobi, November, 1968. I have benefitted from extensive discussions of the issues with Peter Diamond, John Harris, Robert Davis, Kurt Savosnick and Emil Rado. The draft of this paper has been improved by comments from Rado, Harris and Joseph Stiglitz. They are of course, absolved of responsibility for any errors which remain.

1. That these countries should exploit monopoly profits from foreign tourists does not require that this policy objective be made explicit to tourists. On the contrary, every effort should be made to make tourists feel at home and to make them feel that they are getting 'value for money'.



This consideration is extremely important when it comes to deciding upon the ways in which profits are to be extracted from tourists. In general, every effort should be made to extract profits "indirectly" rather than "directly", on this ground. For example, raising more revenues through raising aircraft landing fees will be better, on this ground, than charging a tax to individual tourists using the airport. Levying a tax on hotel bed nights which is not reported on customers' receipts will be better than a tax which is explicitly reported. Charging a lumpsum license fee to tour operators will be better (on this ground) than charging an explicit tax for each tourist handled. To the extent that residents as well as tourists pay these indirect taxes we wish to have some discriminatory taxes. This point is discussed further below.

2. For example, how much, if anything, in tourist receipts (or GNP, or tax revenues generated) has the ban on mini-skirts cost Tanzania?

3. See Peter Diamond, 'On the Economics of Tourism', Eastern African Economic Review, (forthcoming December, 1969) for a more extended discussion of the implications of the objective of maximizing the value of tourism for policy and measurement of value under different administrative constraints.

4. The standard international definition of a tourist is "any person travelling for a period of twenty-four hours or more in a country other than that in which he resides". (Cited in L.J. Lickorish and A.G. Kershaw, The Travel Trade, Praetial Press Limited, London, 1958, pp. 283-4.)

5. This was apparently not recognised by the authors of the last Kenya plan where it is stated "Tourism will also be encouraged by every device available to Government in order to maximize the net contribution of the industry to the foreign exchange earnings of the country". Republic of Kenya, Development Plan 1966-1970, pp. 62-3. Putting it slightly differently, the objective of policy should be to maximize GNP, but not necessarily to maximize the amount of GNP generated by tourism alone.

6. See Diamond, op. cit. We indicate later, in footnote 12 on page 9, that the tourism - induced "distortions" in the domestic tax structure are small in East Africa, and hence that this inefficiency cost of tourism is negligible. In addition, the fact that most resident tourism is by expatriates makes this argument less important than in such countries as Canada or the U.S.A.

7. This is a different point from that raised in the last paragraph, which referred to the cost of inefficiency in the

allocation of goods among residents due to an inability of government to levy discriminatory taxes on purchases by tourists versus domestic residents. The issue here is that even if such discrimination were possible, so that domestic consumers could purchase goods and services at marginal cost, catering for foreign tourist demands will alter the marginal cost of tourist services relative to the marginal cost of other goods and services compared with a situation in which those demands were not catered for and this will have an effect on the distribution of real incomes.

8. In the case of each identifiable item, an estimate was made of distributive margins and of ex-factory or landed cost. The distributive margin was then broken into labour cost, transport cost, etc. on the assumption that the percentages of margin comprised of each of these costs were the same for purchases by tourist activities as for all purchases of that class of commodity. The same procedure was followed with respect to manufactures. In the absence of an input-output table, it was necessary to make some arbitrary assumptions about the components of value of unspecified intermediate inputs into some activities. However, inter-industry relations are not sufficiently dense nor the intermediate coefficients large enough that we would expect this factor to lead to any large errors. Larger errors may have been introduced into the calculations through the use of

data from 1960 and 1963 to calculate magnitudes for 1966/67. In mitigation of the very rough procedures followed, I would argue that it was worth following them rather than not doing the work at all.

9. The allocation has to be made in order not to overestimate the benefits of tourism. The same problems arise when evaluating the effects of expanding tourism. One can reasonably ask whether it is worthwhile building a new or larger airport at Nairobi. The answer will depend upon whether the addition to value of all uses of the airport due to the project will cover the costs of the project. It is not reasonable to ask whether the returns from the tourists will cover "their part" of the common cost - yet some such assumption must be made if we wish to evaluate tourist expansion as contrasted with airport expansion. The usual way of avoiding this problem is to define the project to include all users of common facilities. However, tourists make use of such a wide variety of (mainly infrastructural) goods which involve substantial indivisibilities and are used also by residents that following this procedure would result in a study which dealt only tangentially with tourism.

10. Mitchell, op. cit.

11. These estimates do not include revenues of East African Airways from tourists. In 1967, E.A.A.'s passenger fares, excess baggage, and charter revenue came to £9.9 millions. If 20% of this was derived from tourists, the above estimates should be raised by £2 millions. A rough estimate of landing fees and airport taxes attributable to tourists has been included. The lower estimates were constructed by the author, on the basis of the 1967 Kenya Tourist Expenditure Survey for Kenya, and on the assumption for the other two countries that expenditures per visitor and per visitor day were the same as for Kenya. The upper estimates were secured from the Statistics Division, Ministry of Economic Planning and Development (for Kenya), The United Republic of Tanzania, Background to the Budget, 1967-68, p. 45 (for Tanzania), and the East African Statistical Department, East African Community (for Uganda, and for estimates of spending by undocumented visitors to all three countries). It should be noted that receipts from foreign students are included in the published foreign travel item in the three countries' Balance of Payments statistics, and these receipts are not included here. <sup>p. cit.</sup> Appendices B and C comment further on some of the statistical difficulties. In future, estimates of tourist expenditures based upon visitor statistics and expenditure surveys will be supplemented by information from the exchange control authorities in the three countries.

12. To the extent that duty rates on goods purchased by tourists and residents are set with receipts from tourists as well as with domestic income distributional aims in mind, some of the revenues from tourists will be secured only at the expense of lower welfare of residents due to a tax structure differing from the one which would obtain in the absence of tourism. That is, we should charge against these tourist revenues the reduction in welfare from tourist - induced 'distortions' in the tax structure. The main commodities involved here are photographic film, cameras and binoculars. In the early 1960's, all duties on these items were removed in order to promote tourism and to increase foreign exchange receipts from tourists. In the 1967 and 1968 budgets, these duties were reimposed on the grounds that it was undesirable for residents' purchases of these luxury goods not to be taxed. At present, it is safe to say that there are no substantial tourism - induced tax 'distortions'.

13. The latest Tanzania Plan states that net foreign exchange receipts as a percentage of tourist expenditures may be as high as 40%. The calculation is not explained, however. (The United Republic of Tanzania, Tanzania 2nd Five Year Plan of Economic and Social Development 1st July 1969 to 30th June, 1974, Vol. I, General Analysis, Dar es salaam, Government Printer, 1969 p. 144).

14. There are two parts to this 'pure profit' figure. First, the pure profits - or rents - earned by resident-owned capital invested in such activities as game lodges, which have not been competed away because of slowness of supply response to profitable opportunities. Second, income taxes paid or the returns to foreign capital which would not have been available for investment in non-tourist enterprises in East Africa. I have not estimated either of these magnitudes. However, the income tax on (accounting) profits generated by tourist expenditures may have come to 4% of those expenditures in Kenya in 1966/67. (Mitchell, op. cit., Appendix E.).

15. If the official price of foreign currency in terms of domestic currency is  $P$  and the opportunity cost or shadow price of foreign exchange is  $P^*$ , the amount of undervaluation of foreign currency is  $P^* - P$ , and the proportional degree of undervaluation is  $(P^* - P)/P$ .

16. Substantial urban unemployment would indicate that earnings in the rural sector are less than urban sector wages, as viewed by the unemployed. If the differential for relatively unskilled labour comes to 20% and if we note that roughly 50% of earnings were probably by skilled and managerial employees, 10% of the wage bill will consist of the excess which modern (tourist) sector employees earn over their rural (subsistence) alternative.

17. Data on this point are sketchy. In the case of Kenya in 1967 of around 100,000 visits by residents of Tanzania and Uganda, 38% were by citizens of those territories and 62% by non-citizens. The statistics exclude most citizens of indigenous origin however. It might also be pointed out that the measures laid out strictly apply only to pleasure travel of the 100,000 visits by residents of neighbouring countries to Kenya in 1967, over 50,000 were holiday visits.

18. Mitchell, o.p.cit., Appendix C, pp. 2-3.

19. This is not the same as the gains to East Africa as defined earlier. There we assumed that the welfare of all East Africans was important to policy makers. Here, we assume that each country is concerned only with the welfare of its own residents and not with the welfare of its neighbours' residents.

20. Mitchell, loc. cit.

21. It should be emphasized that if the value of each East African industry were calculated in the same way as the value of tourism has been calculated in this paper, the sum of their values would come to much less than GNP. It is one thing to ask how much an activity is worth, given the available alternatives. It is quite another to ask what the point value of all activities is, and how much of the joint value can be attributed to each activity.



22. For this reason, the use of multipliers in evaluating the benefits of particular industries such as tourism is deceptive and a multiplier analysis has not been carried out here. For a brief analysis of the use and misuse of multipliers in evaluating tourism, see Mitchell, op. cit., pp. 17-18.

23. Import duties comprise a substantial proportion of the indirect taxes paid on tourist activities. We would expect rising duty rates to result in increased import substitution. However, it is most unlikely that the demand elasticities for a majority of imported tourist goods are sufficiently large to imply falling duty proceeds as duty rates rise.

24. Examples include airlines and international hotel chains.

25. It should be pointed out that increased gains on account of tourist-generated employment require that the differential between real earnings in the modern and traditional sectors will increase. This is not unlikely. Even if modern sector real wages could be frozen, it is perhaps not too pessimistic to expect a rise of population in the traditional sector and hence declining marginal products there, although investment and technological change in the traditional sector may counteract this impact. The tastes of the population are also probably changing in a direction such that less and less of the measured differential between

modern and traditional incomes can be accounted for by non-pecuniary advantages of the latter over the former.

Finally, an expansion in numbers of secondary school leavers in excess of the expansion of demand for them at current wage rates suggests that the employment effects of tourism will be more important in future than they have been in the past.

26. If foreign investment is necessary to achieve the growth rates desired by the East African countries and if investment funds are fungible - in the sense that they are available for investment in any of several sectors - then all sectors may be viewed as making use of foreign investment at the margin, whether or not foreign funds are actually invested in them.

27. From 1950 to 1963, international tourist receipts rose at a compound annual rate of 12% compared with exports growing at 7%. It also is interesting that tourist receipts on a worldwide basis grew more steadily (with less variation around the trend and with fewer year to year reversals in trend) than did receipts from exports. See International Union of Official Travel Organisations, Study of the Economic Impact of Tourism on National Economies and International Trade, Geneva, 1966, p. 56. Also, see Gerard Colley, "International Tourism Today". Lloyd's Bank Review, July, 1967, No. 85 pages 30 and 34.

28. Mitchell, op. cit., p. 2.

29. For example, the growth in numbers of visitors to Hawaii rose at an average compound rate of over 17% from 1951 to 1966. (Hawaii Visitors Bureau, 1966 Annual Programme and Research Report, p. 9). According to I.U. O.T.O., op. cit., p. 21, visitor numbers to Australia and Asia rose at 15.9% per annum from 1950 to 1963.

30. Of course, the corollary of the relative increase in tourism's net impact on G.N.P. is that the "disappearance" of tourism would have much more serious consequences in the future than it would have had in the past. This factor will merit more attention in future. At present, the demand prospects for tourism, in terms of rate of increase and stability, seem very favourable as compared with such other export activities as coffee, cotton, tea and sisal.

31. All of the ratios, or estimates based on ratios, in the following paragraphs are derived from the information found for Kenya and reported in Mitchell, op. cit., pp. 21-34.

It should be noted that this source provides ranges for most ratios based on alternative projections and assumptions about construction costs. In order to simplify the text, these assumptions are left out here and single figures used in most cases. Thus, the figure given should be viewed as stating orders of magnitude only.

32. The International Finance Corporation has investments in Kenya hotels, and will probably invest in Tanzania's hotel programme. The National Parks in all three countries have raised money from public and private aid agencies in the rich countries. Road and airport projects have received and will continue to receive finance from these organizations. As well, the Commonwealth Development Corporation and analogous organizations from the Netherlands and West Germany have participated in hotel projects.

33. This is not true of Uganda. Indeed, a case could be made that tourist facilities have been <sup>built</sup> too far in advance of demand in that country - but certainly not disastrously so.

34. The Kenya Minister of Tourism and Wildlife announced recently that more than 80% of the tourist trade in Kenya is in the hands of foreigners. (Daily Nation, 18-12-1968). While expatriates are the most visible persons engaged in running tourist activities, the vast majority of tourist industry employees are citizens. For Kenya in 1967, expatriates accounted for only 4% of persons engaged (employees and owners) in hotels, 47% in aircharter firms, 22% in tour operating and car hire firms and 10% in safari outfitting firms. (Mitchell, op. cit., p. 53).

35. I have (Mitchell, op. cit., Table VII, p. 19) conservatively estimated 1966/67 non-resident tourism-generated employment in Kenya at 11,000, of which 6,300 were in direct tourist activities and 4,800 in activities supplying direct tourist activities. If we assume that employment per £ of tourist expenditures is the same for all three countries, employment generated by non-resident tourism in East Africa came to 17,000 - 19,000 in 1967. In Kenya, employment in activities serving tourists for which information was available came to 9,900 and employment in activities supplying them to 7,000 for a total of 17,000 employees. Obviously, much of this employment was generated by "non-tourist" expenditures such as car hire by businessmen, local residents eating out in hotels and so on. On the other hand, the estimate was undoubtedly on the conservative side as excluded E.A.A. and restaurants. If the same ratio of total tourist-activity-generated employment to non-resident tourist-generated employment applied in the other East African countries as in Kenya, the East African employment in activities serving tourists directly or indirectly would come to 26,000 - 29,000. Adding in 20% of the employees of E.A.A. would raise the total by 700 to 27,000 - 30,000 in 1967.

The employment projection was made on the assumption that labour productivity would rise at 5% per annum over the next five years, where productivity is related to tourist

receipts. If wages in tourist enterprises rise faster than 5-7% per annum, the employment generation effects of the assumed rise in tourist visits and expenditures would be somewhat less. (See J.R. Harris and M.R.P. Todaro, "Wage Policy and Employment in a Developing Country", E. A. Ec. Rev., June, 1969, pp. , for more extended discussion of the relationship between wages, employment and output in Kenya).

36. The long run political viability of tourism will depend upon whether local people are seen to reap the benefits, as well as reaping them in reality, which earlier pages have indicated is the case. This will require not only more local ownership and management of tourist activities but also that East Africa's recreational attractions be accessible to, and appreciated by, a much wider group than the resident and non-resident rich, which is essentially the situation today.

37. This compares with a present estimated "capacity" for the Tanzania Parks alone of 2,000 persons per day. (Tanzania Second Five Year Plan, op. cit., p. 146). The basis of the estimate given in the text was as follows. Visitors to East African National Parks and Game Reserves in 1966/67 probably came to 360,000. This figure is made up of 187,186 visits to Kenya's Wildlife National Parks (excluding Gedi, Fort Jesus, visitors to the Animal Orphanage and Treetops)

arbitrarily and an estimated 50,000 visits to Amboseli, Mara, and Samburu Game Reserves in 1966/67, 86,600 visitors to the Tanzania National Parks (1967) and 36,121 visitors to the Uganda National Parks (1966/67). The forecast of 15% growth is lower than the forecast of numbers of foreign visitors of 20% given earlier. Since a large proportion (one half) of present visits to national parks and game reserves is by residents of East Africa and since these visits will not increase so rapidly as foreign visits, growth in the early years will reflect this fact. In the later period, when foreign visits are a larger proportion of the total, the 15% growth rate makes some allowance for a slowing in visitor increases. Projecting 360,000 annual visitors in 1966/67 to 1999/2000 at 15% results in a forecast of 36,000,000 park visits in the last year of the century. The peak day is assumed to contain 1/2% of annual visitors. This is equivalent to 10% of the annual visitors arriving in the peak month, (which assumes less seasonality than is the case at present for those parks for which information is available), and to 5% of visitors in the peak month being in the Park on the peak day (which is also probably conservative).

38. At present, just over 140,000 square miles are included in National Parks and Game Reserves in the East African countries. They comprise 5.2% of the area of Kenya, 33.9%

of the area of Tanzania, 7.2% of Uganda and 20.8% of East Africa as a whole. These percentages compare with 6.0% for Japan, 2.2% for the U.S.A. and 0.2% for the U.S.S.R.

39. Changing agricultural lands back to "nature" is costly not only because it takes a considerable period of time for a 'natural ecology to reassert itself (assuming that no species have been rendered extinct in the meantime, which makes a full return impossible), but also because it is politically extremely difficult to displace settlers, however uneconomic their use of the land may be.

40. Using income statement data from Kenya Game Lodges and on various assumptions about construction costs, after-tax rates of return on capital invested of 15-30% are not improbable. If some gearing is assumed, the return on equity can be much higher. Mitchell, *op. cit.*, pp.43-44. In Uganda seasonality is much more acute than in the other two countries. Because of its distance from other East African attractions and hence the high cost of being included in tours, Uganda may act to take the 'overspill' from the other countries in peak seasons. Nevertheless, Uganda possesses some unique attractions and can expect, with the development of tourism in its neighbours Rwanda and the Congo - to develop some 'basic circuits' which will attract holiday makers to it alone. In the meantime, the greater seasonality of Uganda tourism implies that Uganda



lodges and hotels, if they are to make a profit, should be constructed at less cost than such facilities in Kenya and Tanzania. While the Government Lodges in all three countries are costing between £2,000 and £3,500 per bed installed, it is possible to erect extremely attractive and comfortable facilities for £1,000 per bed. There are many reasons for current high costs, but one of the major ones is probably the inexperience of local Government in tourist development. As was indicated earlier, this is probably a transitional phenomenon.

41. If the number of tourists is responsive to total tour costs, the elasticity of demand with respect to one element of tour cost will be the same proportion of the total elasticity of the demand for tours as its cost is of the total tour cost. Accommodation, food and drink are less than one half the local element of tour costs and anywhere from one tenth to one fifth of total tour costs (including return transport) for visitors from abroad (Kenya Tourist Expenditure Survey, 1967, (unpublished). Some results are reported in Mitchell, op. cit., Appendix B, Table 6). For reduction of tariffs to be profitable, demands for hotels would have to be at least elastic and this would imply demand elasticities for off-season tours of -5 to -10. Hoteliers feel this is improbable, at least for visitors. Resident tourism may be a different story, and Uganda hotels sets lower rates for residents in the off-seasons.

42. Negotiations with these authorities are time consuming. Lodge companies may also fear the authority will appropriate the increase in price by raising the rental paid per visitor. Such rises would be a sound idea from a social point of view if they could be confined to the peak seasons (see below). Most Kenya lodge operators pay the National Parks or County Council Game Reserves a fixed charge of Shs. 20/= per bed night taken. This charge probably helps to explain their reluctance to charge sharply lower off-season rates.; none of those which pay them have such rates and all which do not pay them do have them.

43. If the associated tour operator secures preference in bookings over other operators or private parties, it is to his advantage to have hotel tariffs below the market clearing level. Not only will he thus gain a competitive advantage over other operators; he will also be able to extract the scarcity rent on beds through charging higher prices for his tours.

44. Uganda Hotels is at least a partial exception. We have noted their off season resident tariff in footnote 41. As well, while they do not directly raise their lodge tariffs at times of shortage (in line with a policy that tariffs should not be raised for two years) they do require persons wishing to make bookings over Christmas to book all three

days over the holiday or not at all. For someone who stays only one night at this time, this is equivalent to a tripling of the tariff.

45. See, for example, the newspaper reports of the speech by Kenya's Minister of Tourism and Wildlife when opening the Ngulia Safari Lodge. Aside from criticising high and unstable prices, he also pointed out that "Compared with the Mediterranean and Caribbean countries, we are already too far from the tourist markets of Europe and America and as a result our visitors have to pay substantially more air fares to come here. Our hotel and lodge tariffs should therefore not rise to a level which acts as a deterrent to overseas visitors." (Daily Nation, 23-8-1969). In Tanzania one function of the National Hotels Board is to oversee standards of food and accommodation, and to ensure that tariffs are in line with these standards. There is now (July, 1969) a team of German Hotel 'experts' engaged in classifying Kenya Hotels. One unfortunate consequence (from the point of view of gains from tourism) of their activities will probably be some form of price control on hotels.

46. Aside from the above justification of seasonal variation in tax rates - that it is necessary to extract for East Africa the full quasi-rents on limited capacity

in the short run - there is a more general justification. Insofar as there are heavy costs to expanding capacity to serve tourists (hotel beds, game park roads, airports, etc) and insofar as it is peak demands which require expansion of that capacity, the marginal cost of serving peak season tourists is a good deal higher than that of serving slack season tourists. Unless demands in the peak season are much more elastic than those in the slack season, the set of prices which will maximize the value of tourism will include higher peak than off-peak rates. In some cases, such as airports and game parks, where there are hourly peaks within the day and daily peaks within the week, this argument implies that prices should vary at those times as well. The existing practice - charging the same tax in peak and off-peak seasons (days, hours) is almost certainly non-optimal.

47. Tourism considerations are not the only ones underlying the Sanya Juu decision. The present Arusha airport is incapable of handling Fokker Friendships, the main aircraft used by E.A.A. for intra-East African flights. As Community Headquarters, it is essential for political reasons that Arusha be accessible to this type of craft. To upgrade the old Arusha airport to this standard would cost almost as much as constructing a new one. Building the new airport at Sanya Juu will save some operating

expenses since it will replace the present airstrip at Moshi as well as the one at Arusha. Given the desirability of the Sanya Juu Airport on these grounds, there is still the question as to whether it should be built to handle the large jets used on international routes. Handling them will more than double the capital cost of £1.5 millions (more, if prudent allowance is made for rising construction costs) necessary to enable Sanya Juu to take Friendships. The decision to spend the extra £2.0 millions will have to be justified almost entirely on the basis of the gains to Tanzania from switching tourist traffic which would otherwise have landed at Nairobi. (See the statement to this effect by Hon. H. Makama, Tanzania Minister of Tourism, E.A. Standard 4.6.1969.).

48. "Uganda's Withdrawal from the East African Tourist Travel Association" in Politics of Integration, An East African Documentary, edited by Donald Rothchild, East African Publishing House, Nairobi, 1968 pp.267 - 278.

49. Mitchell, op. cit., Appendix B.

50. Address to the Moshi Round Table by the Hon. A. Jamal Minister of Finance, reported in the East African Standard, 8.11.1968. The "imbalance" in tour operating is indicated by the finding of the Tanzania National Parks (privately communicated to the author) that 85% of the commercial tour vehicles entering the Northern Tanzania Parks are registered

in Kenya, while the analogous percentage for entries by Tanzania vehicles to the Kenya parks is certainly much smaller. Elimination of this imbalance by excluding Kenya tour operators would not necessarily benefit Tanzania.

Such an action would result in Tanzania reaping some of the gains from the overheads and profits earned on tours switched from Kenya to Tanzania operators. For example, customs duties paid on Kenya vehicles used to carry visitors in Tanzania would, after the exclusion, accrue to Tanzania rather than Kenya. On the other hand, fewer economies of scale in the management of vehicle fleets and in the handling of multi-country tours would be reaped and this factor would tend to reduce the profits earned (and taxes paid on those profits) on tours. Exclusion would also lose Tanzania the Shs. 20/- road toll on each visit by a non-Tanzanian commercial vehicle. More important, exclusion would tend to reduce gains from visitors' expenditures in Tanzania by reducing the number of visitors. Fewer visitors would come to Tanzania because the greater difficulty (and expense) confronting visitors who want to visit both countries would reduce the number of visitors coming to the region. In addition, Kenya tour operators undoubtedly generate some business for Tanzania attractions which would not otherwise exist. The information on which to base a judgment as to whether the (Tanzania) gains-increasing effects

of exclusion would exceed the (Tanzania) gains - reducing effects is not available. What is certain is that the value of tourism to East Africa would be reduced by such a decision.

51. T.W.S. is a fully-owned subsidiary of the National Development Corporation. Similar tariffs are not imposed on safaris -- organized by Uganda Wildlife Development Ltd., which is a subsidiary of the Uganda Development Corporation.

52. The Treaty for East African Cooperation, Government Printer, Nairobi, 1967, Annex VI, p. 68.

53. East African Standard, 19-7-1968.

54. See the Wednesday Aviation columns of Malcolm Payne in the East African Standard for October and November, 1968 for the evolution of this controversy.

55. The first meeting was announced in the Daily Nation, 20-3-1969.

56. See Peter Diamond, Frank Mitchell, M. Muturi, Report of the Air Freight Study Group, Institute of Development Studies, Discussion Paper No. 72, June, 1969, p. 27.

57. A non-exhaustive list of redistributive mechanisms would include, aside from those given in the text, agreements on the siting of new attractions (should the next beach hotel be located in Kenya or Tanzania?), formulas for financing common

tourist services (university hotel management training, overseas publicity, tourism statistics and research) which allocate costs on the basis of overall gains from tourism, and even direct cash transfers.